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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 12, 1983 VOLUME XX, NUMBER 32

The Global Economic Upturn . . .

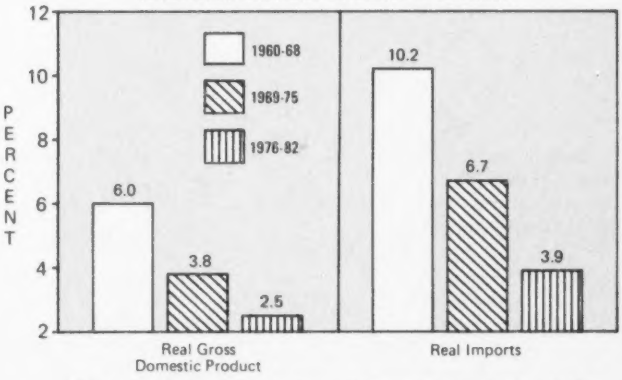
At the International Monetary Fund (IMF)/World Bank annual meeting in Washington at the end of this month, the mood is bound to be more cheerful than at the Toronto meeting last year. Then, the world economy was still in the grip of a global recession, with the widely forecasted revival failing to materialize because of weak exports, shrinking investment and inventory liquidation. Also, just prior to the meeting, Mexico had reported that it was encountering external payments difficulties—and it became apparent that some other countries would soon follow suit. Not surprisingly, as the stability of the international financial system became increasingly more doubtful, external debt emerged as a central point of discussion.

In contrast, the world economy now appears to be in better shape. Statistics indicate that the recession in the industrial countries bottomed in the fourth quarter of last year, and with production and several other indicators in these countries rising steadily since December, their economies grew close to two per cent, seasonally adjusted, in the first half of this year compared with the second half of last year. At the same time, on the external debt front, Mexico has made great progress towards resolving its external payments problem, and there is now hope that the global external debt payments problem will be alleviated before it derails the international economy.

Because of this improved outlook, it is likely that this year's IMF/World Bank meeting will focus on ways to strengthen the world economic revival. Particular emphasis will be placed on the economic policy mix in the industrial countries, especially in the U.S., on lowering trade barriers and on co-operative efforts between the industrial and the developing countries to promote economic growth and balance-of-payments adjustments in the latter set of countries.

There is no question that the impetus for global recovery will come from the industrial nations whose upswing will increase the need for imported goods, much of which will come from the developing countries (LDCs). The industrial countries of the free world absorb about 60 per cent of LDC exports. Improving exports will, in turn, lead to renewed growth in these LDCs. Consequently, much depends upon the strength and duration of recovery not only in the United States, but in the major economies of Europe and Asia as well.

'REAL' GROSS DOMESTIC PRODUCT VS. 'REAL' IMPORTS FOR SEVEN SELECTED INDUSTRIAL COUNTRIES*
(AVERAGE ANNUAL PERCENT CHANGES)



*Seven countries include Canada, France, Germany, Italy, Japan, U.K., and U.S.

. . . Needs More Than Just The U.S. . . .

Although no substantial global economic upturn is possible without stimulus from the United States, our economy cannot sustain recovery elsewhere without help from the other industrial nations. There, growth based upon technological innovation and production creates demand for the raw materials and semi-manufactures exported by the developing world. The cycle of global economic interdependence begins in the industrial countries.

Yet, the current recovery in most of the industrial nations has been weak and hesitant. Much of the growth which has occurred has been in the United States and Japan; Europe's contribution has been marginal. Only in the United States, where the second quarter logged real growth at a seasonally adjusted annual rate of 9.2 per cent, can the economic upswing really be considered to be well under way. Nonetheless, for 1983 as a whole, the real Gross National Product is expected to rise not more than three per cent, compared with 5.4 per cent real growth in 1976—the first year of recovery after the recession of 1973-75.

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It is clear that the worldwide recovery from the recession of 1973-75 was more widespread, balanced and vigorous than the present cyclical upturn. The seven largest industrial nations in the free world (U.S., Japan, Germany, France, U.K., Italy and Canada) recorded real growth of 5.2 per cent in 1976 while their real imports grew by 13.7 per cent. This year, both aggregate real growth and the increase in import volume for these seven countries are unlikely to exceed two per cent.

This trend towards slower growth is nothing new. Since the decade of the 1960s, both rates of real growth and growth in imports have been declining and recoveries from the recessions of the 1970s and early 1980s have been slower and weaker than before (see chart on page 1). One underlying reason for the lag in overall growth and retardation of recoveries is the enormous drag on economic activity imposed by the explosive rise in energy prices in 1973-74 and 1978-79. However, the decision on the part of most of the industrial countries—particularly the United States—to squeeze inflation added to the breadth and depth of the recent downturn and to the sluggishness of this recovery.

. . . And Trade Is The Key

Besides the decline in their exports to industrial countries, the LDCs have been hurt by the plunge in prices of basic commodities, which form the bulk of LDC exports. In the 1970s, commodities

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/31/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.670	– .794	+11.691
Loans to Depository Inst.	1.714	+ .134	+ 1.207
Float	.821	– .559	– .735
Total Reserve Bank Credit	163.758	– 1.200	+10.563
Treasury Deposits with Federal Reserve Banks	3.300	– .259	+ .143
Currency Outside Banks	143.585	– 1.163	+11.616
Member Bank Reserves:			
Required	38.349	+ .008	– 1.717
Excess (Deficiency)	.541	+ .123	+ .179
Total Reserves Held	38.890	+ .131	– 1.538
Net Borrowed Reserves	.458	+ .027	+ .524
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.053	– .930	+14.068

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	513.3	+ 5.7‡	+ 12.4‡
M2 (August '83)	2,136.2	+ 7.6	+ 12.2
M3 (August '83)	2,527.9	+ 8.3	+ 9.1
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 9/9/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.42%	9.90%	10.30%
* Federal Agencies	9.35	10.00	10.50
* Project Notes–Taxfree (46% Taxable Equivalent)	9.44	10.37	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.60	9.88	10.65

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.13%	Oct.	9.35%
15- 29 days	9.25	Nov.	9.35
30- 59 days	9.25	Dec.	9.40
60- 89 days	9.25	Jan.	9.45
90-179 days	9.38	Feb.	9.50
180-239 days	9.25	Mar.	9.45
240-270 days	9.25		

‡Industrial Paper–Prime		†Federal Funds Effective Rate	9.65%
30- 89 days	9.35%		
90-120 days	9.38		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2	2.6	0.9
Change in Consumer Prices (new series)*	Jul '83	4.8%	2.4%	7.2%
Change in Producer Prices*	Aug '83n	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force†	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Jul '83	$ 2,751	$ 2,736	$ 2,590
Leading Indicators Composite Index (1967=100)†	Jul '83	157.7	157.2	136.2
Industrial Production Index (1967=100) †	Jul '83	148.6	146.0	138.8
Net Change in Consumer Installment Credit †	Jun '83	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jul '83	–$ 6.36	–$ 4.96	–$ 2.70
Plant and Equipment Expenditures*	4th Q'83n	$326.73(a)	$313.04r(a)	$303.18r
Private Housing Starts (Thousands of Units)*	Jul '83	1,741	1,752	1,185
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jun '83	$ 505.0	$ 505.7	$ 521.0
Total Business Sales †	Jun '83	$ 371.6	$ 364.1	$ 349.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

prices jumped by 188 per cent. The commodity price boom and the increase in the volume of exports led to rapid growth of the developing countries. Between the end of 1980 and the end of 1982, however, commodities prices fell by 27 per cent, intensifying the global recession and helping to bring about the financial problems of some LDCs. Although some commodities prices have recovered since the beginning of this year, most are still well below their peak reached in the first quarter of 1980.

Rising international trade will only slowly overcome the effects of the recent worldwide recession, and there is at least one other factor which will retard global economic recovery. Unemployment is still rising and may continue to do so throughout most of this year. In the first half of 1983, it averaged nearly 9½ per cent among the OECD countries, up from eight per cent in the first half of 1982.

The fact that the world economy has not snapped back is not unexpected considering the length and depth of the recession. International trade is recovering, but it is dependent upon domestic improvements in the industrialized countries which are still struggling with the problem of stable non-inflationary growth in an environment of high interest rates and high unemployment. Nor can we expect, in the near future, to return to the high growth rates of the 1960s and early 1970s. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/24/83)	95,185	+ 657	–54,615
New York City (8/24/83)	22,207	– 393	–18,020
Commercial Paper (8/24/83)	172,929	– 1,351	– 3,715*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/83)	213,850	+ 15	+ 2,887
New York City (8/24/83)	58,584	+ 315	– 473

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/83)	506,886	– 1,865	+14,060
New York City (8/24/83)	116,608	– 818	+ 622

Financial Markets

	Friday 9/9/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.30%	– .35	+ .71
180-Day Bills†	9.60	– .50	– .75
Longest Bills†	10.05	– .45	– 1.05
Recent Issues:			
10⅝s 8/31/85	10.63	– .57	
10½s 6/30/87	11.20	– .45	
11⅞s 8/15/93	11.50	– .50	
12s 8/15/13	11.50	– .50	
Municipals:			
Bond Buyer–20 Bond Index* (9/8/83)	9.67%	– .08	– 1.08
Blue List Total ($ Million)	$1,082	– $ 61	+ $ 88
30-Day Visible Supply ($ Million)	$2,414	+ $ 36	– $669
Total	$3,496	– $ 25	– $581
Corporates:			
Moody's Aa Composite (9/8/83)	12.67%	– .11	– 1.19
30-Day Visible Supply ($ Million)	$ 767	+ $257	– $263
Stocks:			
Dow-Jones Averages:			
Industrials	1,239.74	+ 24.29	+ 332.92
Transportation	569.66	+ 10.72	+ 200.06
Utilities	131.17	+ 1.06	+ 16.69
65 Stocks	490.90	+ 8.79	+ 136.73
Standard and Poor's 500 Stocks	166.92	+ 1.92	+ 45.95
N.Y.S.E. Composite Index	96.54	+ 1.26	+ 27.13
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,920	+18,552	+ 11,997

* 46% Taxable equivalent 17.91%.

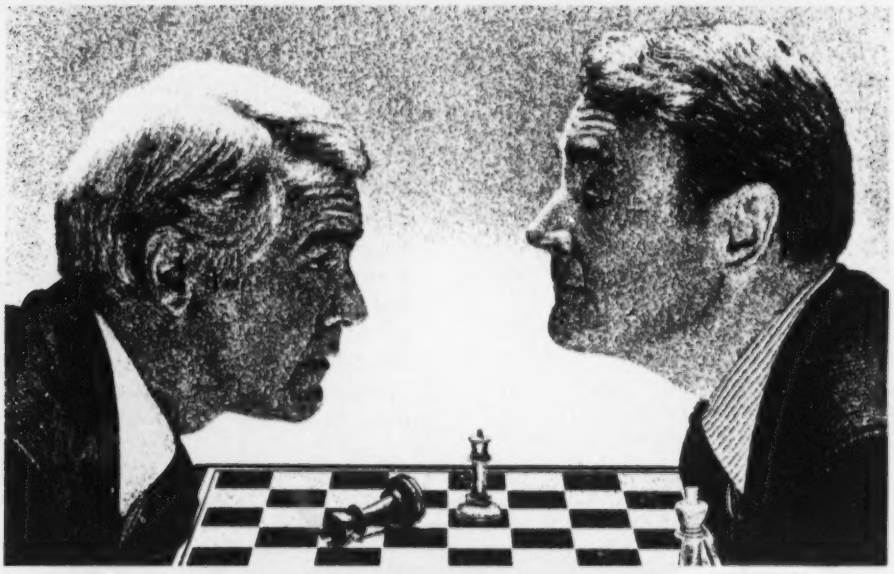
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/9/83	Week Ago
Overnight	9.44%	9.50%
1 month	9.75	9.88
3 month	10.00	10.25
6 month	10.31	10.63
1 year	10.19	11.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	12.15%
Long Term (7 to 15 yrs.)	11.90	12.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/9/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01863	53.68
Canada	.8121	1.2314
Denmark	.1040	9.6175
France	.1245	8.0325
Germany	.3750	2.6670
Italy	.0006275	1593.50
Japan	.004089	244.55
Mexico	.006601	151.50
Netherlands	.3351	2.9845
Switzerland	.4613	2.1675
U.K.	1.4958	.6685



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MONDAY, SEPTEMBER 19, 1983 VOLUME XX, NUMBER 33

The Summer Interest Rate Backup . . .

Now that interest rates have edged lower, it is worthwhile to look back to see what damage their summer runup caused to the pace of business activity. Between May and August, both short- and long-term interest rates rose from 125 to 200 basis points, while the banks' prime lending rate was increased one half of one percentage point in August—its first increase in more than a year. As a result, the recovery slowed as retail sales, housing starts and new home sales weakened. But while these developments may be unwelcome to those retailers and homebuilders directly affected, they were precisely what the Federal Reserve and the credit markets were waiting for. Indeed, with the business rebound slipping into a lower gear, private short-term credit needs will remain weak and the long predicted clash between public and private borrowings will be delayed.

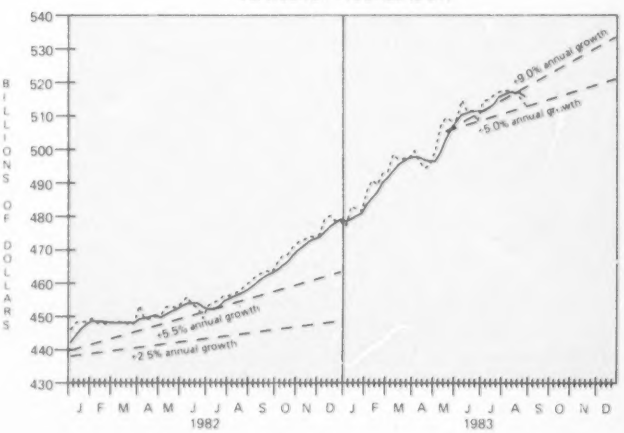
Between July, 1982 and May, 1983, interest rates dropped sharply, setting the stage for recovery. Sparked by a revival in consumer spending for such big-ticket and interest rate-sensitive items as new homes, automobiles and appliances, the rebound in business activity began to gather momentum. Whereas the inflation-adjusted GNP grew at a modest 2.6 per cent seasonally adjusted annual rate in the first quarter of 1983, by the second quarter it was expanding at a torrid 9.2 per cent annual clip.

With mortgage interest rates reaching a three-year low in May, 1983, homebuilders enjoyed their busiest spring building season in an equal number of years. Housing starts ran at a seasonally adjusted 1.8 million unit annual rate in May, some 76 per cent higher than May, 1982 levels. Sales of new single-family homes also reached a three-year high, reducing the inventory of unsold new homes to just a five-month supply—its lowest level since March, 1977. What is more, with consumer confidence brightening and auto loan rates down, the nation's automakers also began to put the recession behind them, reporting auto sales in June at a seasonally adjusted 7.5 million unit annual clip—their best performance in almost two years and a 46 per cent improvement compared with June, 1982. Since trends in the housing and automobile industries have a substantial rippie effect throughout the economy, 2.5 million people found work this year, pulling the jobless rate down by 1.3 per cent.

. . . Slows The Recovery . . .

But with a robust business recovery under way, and fear rising that private credit needs would grow much sooner than anticipated, the Federal Reserve decided to take some wind out of the recovery. Last spring, the Fed began to tighten the monetary reins in order to slow the recovery and dampen money growth. Before long, interest rates started to rise once again and recovery in both the housing and automobile industries slowed.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE)
VS. WEEKLY FIGURES (DOT)



Housing was hit rapidly. The two-point backup in mortgage interest rates since May, 1983 has arrested the rebound in housing as affordability has again become a problem for many homebuyers (Financial Digest—August 22, 1983). New single-family home sales, which had been rising strongly all spring, fell 6.5 per cent in July while starts of single-family homes declined 11.9 per cent in July, following a drop of 3.1 per cent in June. In response, lumber production began to sag, falling in August to its lowest level since the middle of February.

So, too, domestic car sales faded, dropping to a seasonally adjusted annual rate of 6.6 million units

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